

02/08/2006 16:38 FAX

002/005

Form 4564	Department of the Treasury Internal Revenue Service <b>Information Document Request</b>	Request Number  3 (p. 1 of 4)
Mr. Anthony Pounders, Court Appointed Receiver Unity House Incorporated (UHI) 1701 Ala Wai Blvd Honolulu, Hawaii, 96815		Subject: Form 990 for the year ended December 31, 2002 to December 31, 2004
		Submitted to: Organization
		Dates of Previous Requests: 11/2/2005 and 12/7/2005

**Description of Documents Requested:****A. 2004 Organizing Instruments Amendment:**

Our examination of Unity House Inc.'s 2004 Articles of Amendment, the 2004 Articles of Incorporation and the termination of all its members under the 2004 Articles of Amendment, indicate that Unity House substantially changed its character, purposes or methods of operation which adversely affect Internal Revenue Service's (IRS') previous determination of Unity House Inc.'s tax-exempt status under Internal Revenue Code (IRC) §501(C)(5).

Please provide any justification, if any, why Unity House, Inc. made this change, whether in your view, it jeopardizes the organizations' tax-exempt status under IRC §501(C)(5), and the basis for that view. Also, please advise how Unity House communicated this change to its members and who authorized the changes.

**B. 2004's Termination of all members:**

Unity House Inc.'s 2004 Articles of Incorporation (Article VII) states that Unity House shall have no members. IRC §501(C)(5) requires membership organization to have members to qualify for the tax-exempt status.

Please explain how Unity House Inc. plans to maintain its tax-exempt status under IRC §501(C)(5) by operating as nonmembership organization.

**C. Inurement - Personal Legal Expenses:**

Our examination of Unity House Inc.'s tax return disclosed significant amount of legal expenses reported by Unity House on its tax returns (\$531,148, \$494,158 and \$1,383,727 for tax year 2002, 2003 and 2004, respectively). Our further examination of Unity House Inc.'s accounting records disclosed that as of December 31, 2004 approximately \$1 million dollars of legal expenses paid by Unity House Inc.'s fund were for Mr. Anthony Rutledge's personal legal expenses.

Information Due By 2/10/2006 At Next Appointment ☐ Mail In ☒

FROM	Name and Title of Requestor May Ferguson, Revenue Agent, ID #94-11920	Date: 2/8/2006
	Office Location: Internal Revenue Service 4330 Watt Avenue, SA 6206/MF Sacramento, CA 95821	
		Phone: Voice (916) 974-5539 FAX (916) 974-5911

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**EXHIBIT D**

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003/005

<b>Form 4564</b>	Department of the Treasury Internal Revenue Service <b>Information Document Request</b>	<b>Request Number</b>  3 (p. 2 of 4)
Mr. Anthony Pounders, Court Appointed Receiver Unity House Incorporated (UHI) 1701 Ala Wai Blvd Honolulu, Hawaii, 96815		Subject: Form 990 for the year ended December 31, 2002 to December 31, 2004
		Submitted to: Organization
		Dates of Previous Requests: 11/2/2005 and 12/7/2005

**Description of Documents Requested:**

IRC §501(C)(5) and Regulations section 1.501(C)(5)(a)(1) prohibits the payment of personal expense of members or employees. To further review whether the payment of Mr. Anthony Rutledge's personal legal expenses by Unity House Inc.'s fund may be inurement, please provide the followings:

- A copy of Mr. Anthony Rutledge's employee contract and confirm whether this contract includes provision of paying Mr. Anthony Rutledge's personal legal expenses as compensation,
- Explanation of how Mr. Anthony Rutledge's personal legal expenses were paid in tax year 2002 to 2004 and who approved these legal expenses,
- Provide any legal and/or accounting advice obtained regarding payment of these personal legal expenses with Unity House Inc.'s fund, and
- Explanation if, in your view, paying President's personal legal expenses is part of normal business practice of IRC §501(C)(5) tax-exempt organization.

**D. Inurement – Payments and loan guarantee to Members:**

1. IRC §501(C)(5) and Regulations section 1.501(C)(5)(a)(1) prohibits inurement via, e.g., loans to members or employees. Our review of Unity House Inc.'s record and interview of Unity House Inc.'s former employees and members confirmed that Unity House Inc. made a \$40,000 payment to Mr. Romeo M. Mindo (employee and member) and a \$35,000 to Mr. Jim Kellogs (consultant and member). Please provide the followings:

- Date the payments were requested and made by Unity House Inc.,
- Persons who authorized the payments and executed the transactions,
- The nature and purpose of the payments,
- Whether the payments made by Unity House Inc. were loans to Mr. Mindo and Mr. Kellogs. If these payments are loans, what are the maturity dates for the loans, what is the payment schedule and what interest rate is charged.

Information Due By 2/10/2006 At Next Appointment ☐ Mail In ☒

FROM	Name and Title of Requestor May Ferguson, Revenue Agent, ID #94-11920	Date: 2/6/2006
	Office Location: Internal Revenue Service 4330 Walt Avenue, SA 6208/MF Sacramento, CA 95821	
		Phone: Voice (916) 974-5539 FAX (916) 974-5811

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<b>Form 4564</b>	<b>Department of the Treasury Internal Revenue Service Information Document Request</b>	<b>Request Number 3 (p. 3 of 4)</b>
<b>Mr. Anthony Pounders, Court Appointed Receiver</b> <b>Unity House Incorporated (UHI)</b> <b>1701 Ala Wai Blvd</b> <b>Honolulu, Hawaii, 96815</b>		<b>Subject:</b> <b>Form 990 for the year ended December 31, 2002 to December 31, 2004</b>
		<b>Submitted to: Organization</b>
		<b>Dates of Previous Requests:</b> 11/2/2005 and 12/7/2005

**Description of Documents Requested:**

- 1. Unity House Inc.'s company policy and procedure for making payment to employees and members
- 2. Unity House Inc. guaranteed loan for Mr. Rudy Tam, a consultant and member of Unity House Inc., for over \$1 million dollars. Explain the nature and purpose of the loan and identify persons who authorized and executed the transactions.
- 3. Please advise whether, in your view, these loans constitute inurement and/or otherwise jeopardize the organization's exempt status. Please provide the basis for your view.

**E. Lobbying Activities:**

IRC §501(C)(5) organization may participate in lobbying activities if the legislation is germane to the accomplishment of its exempt purpose. Unity House supported legislation that amended certain provisions of Hawaii Revised Statutes (HRS) Chapter 414D, the Hawaii Nonprofit Corporation Act. Unity House was the sole testifier on behalf of Act 81, 2003 Session laws of Hawaii (SLH). Section 1 of Act 81 made it realistically possible for Unity House to terminate all of its members.

Unity House Inc. is required to have members to qualify under IRC §501(C)(5) tax-exempt status. Explain (i) why Unity House Inc. considers its lobbying to terminate all of its members is germane to its exempt purpose (ii) who authorized this lobbying activity and (iii) identify all expenses associated with this lobbying activity.

**F. Unrelated Debt-Financed Income:**

Unity House borrowed approximately eight million dollars against its stock market portfolio. Please identify the securities purchased on margin for tax year 2002, 2003 and 2004 and confirm the amount of liability incurred in purchasing the securities which remains outstanding.

Information Due By 2/10/2006 At Next Appointment ☐ Mail In ☒

<b>FROM</b>	<b>Name and Title of Requestor</b> May Ferguson, Revenue Agent, ID #94-11920	<b>Date:</b> 2/6/2006
	<b>Office Location:</b> Internal Revenue Service 4330 Watt Avenue, SA 6209/MF Sacramento, CA 95821	
	Phone: Voice (916) 874-5539 FAX (916) 874-5911	

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<b>Form 4564</b>	<b>Department of the Treasury Internal Revenue Service Information Document Request</b>	<b>Request Number 3 (p. 4 of 4)</b>
<b>Mr. Anthony Pounders, Court Appointed Receiver</b> Unity House Incorporated (UHI) 1701 Ala Wai Blvd Honolulu, Hawaii, 96815		<b>Subject:</b> Form 990 for the year ended December 31, 2002 to December 31, 2004
		<b>Submitted to: Organization</b>
		<b>Dates of Previous Requests:</b> 11/2/2005 and 12/7/2005

**Description of Documents Requested:****G. Related Entities:**

Identify all related entities and their primary/principal activities and business operations and how they are related to Unity House. Please provide copies of tax returns filed for the periods ending December 31, 2002, 2003 and 2004. If a return is not required to be filed, please provide the reason and describe how any flow-through income was reported on the Unity House returns.

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<b>FROM</b>	<b>Name and Title of Requestor</b> May Ferguson, Revenue Agent, ID #94-11920	<b>Date:</b> 2/6/2006
	<b>Office Location:</b>	
	Internal Revenue Service 4330 Watt Avenue, SA 6209/MF Sacramento, CA 95821	Phone: Voice (916) 974-5539 FAX (916) 974-6911

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